

**THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2021-153-S**

IN RE: Application of Palmetto Wastewater	)	<b>DIRECT TESTIMONY</b>
Reclamation, Inc. for an Adjustment of	)	
Rates and Charges	)	<b>OF</b>
	)	
	)	<b>DONALD H. BURKETT</b>

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Donald H. Burkett, CPA. My principal place of business is 3101 Sunset Boulevard, West Columbia, South Carolina 29171.

**Q. WHAT IS YOUR CURRENT POSITION?**

A. I am employed as the Executive Vice President of Burkett Burkett & Burkett Certified Public Accountants, P.A. where I have worked since 1976.

**Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

A. I graduated in 1974 from the University of South Carolina with a Bachelor of Science Degree in Accounting. I am a CPA licensed to practice accounting in South Carolina and a member of the American Institute of Certified Public Accountants. From 1974 until 1976, I worked for a regional CPA firm before founding Burkett Burkett & Burkett Certified Public Accountants, P.A. in 1976. I am a past President of the South Carolina Association of Certified Public Accountants. I am a past Chairman of the South Carolina Board of Accountancy, which regulates the licensure and practice of

accounting in the State of South Carolina. Most recently, I served as the Chair of the National Association of State Boards of Accountancy. I have been involved with auditing, tax return preparation, financial services, and advisory services for my entire career for a variety of clients, including regulated utilities.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. I have been retained by Palmetto Wastewater Reclamation, Inc. ("PWR" or "Company") to prepare the financial schedules submitted in connection with its application. The purpose of my testimony is to support the application for an adjustment of certain rates and charges for the provision of wastewater services.

**Q. WHY IS PWR REQUESTING RATE RELIEF AT THIS TIME?**

A. With increased operating expenses and additional plant investments PWR has made since its last rate case, PWR needs rate relief to provide safe, reliable, and high-quality services to customers, be permitted an opportunity to earn a reasonable return on its investment, and attract capital for future improvements.

**Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

A. The Rate Case Application includes the financial statements for PWR. The subsections are as follows:

- Schedule A - Balance Sheet
- Schedule B - Current and Pro Forma Income and Expense Statements
- Schedule C - Schedule of billed revenue at current and proposed rates
- Schedule D - Schedule of fixed assets and depreciation
- Schedule E - Schedule of present and projected customers

- Schedule F - Schedule of current and pro forma rate base
- Schedule G – Weighted Cost of Capital
- Schedule H - Schedule of proposed rates

Also included in the Application are the most recent approval letters from the South Carolina Department of Health and Environmental Control, a sample customer bill form, and the Company's most recent Gross Receipts Tax Filing at the time the application was filed. The test year chosen is the year ended December 31, 2020, which was the twelve-month period of the Company's most recent fiscal year available at the time of the Company's filing.

**Q. PLEASE SUMMARIZE THE PROPOSED CHANGES IN THE COMPANY'S RATE SCHEDULES.**

- A. Exhibit "A" to the Application contains the Company's Schedule of Proposed Sewer Charges. A summary of the requested increase in base rates is shown below.

<b>Monthly Sewer Base Rates</b>		
<u>Class</u>	<u>Current</u>	<u>Requested</u>
Residential	\$37.92	\$43.12
Mobile Home	\$28.30	\$32.18
Commercial	\$37.92	\$43.12

**Q. PLEASE EXPLAIN THE COMPONENTS OF THE COMPANY'S TEST YEAR COSTS.**

- A. The Company's test year costs include operating expenses, depreciation on plant placed in service through March 31, 2021 (including depreciation on shared assets), allocated corporate overhead, interest expense, income taxes, other miscellaneous costs, and a reasonable return on rate base. The components of rate base include plant placed in

service prior to March 31, 2021 net of accumulated depreciation and net contributions in aid of construction, materials and supplies, prepayments, and working capital. Accumulated deferred income taxes and excess deferred income taxes both reduce the Company's rate base.

**Q. PLEASE EXPLAIN HOW THE TEST YEAR COSTS WERE ADJUSTED.**

A. Pro forma adjustments were made to the test year actual costs based on known and measurable changes to recorded costs.

**Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE PRO FORMA ADJUSTMENTS MADE TO THE INCOME STATEMENT IN SCHEDULE B.**

A. The major known and measurable pro forma adjustments made to the income statement in Schedule B are:

- Operating Revenue was adjusted to reflect the number of customers at year end using the rates that were effective as of June 16, 2021. This increased pro forma revenue by \$110,933.
- Materials and Supplies expenses was reduced by \$3,106 to remove COVID-related expenses.
- Contract Services – Management Fee was reduced by \$186,776 to remove contract services.
- Contract Services – Other was increased by \$1,550 to add remaining balance of annual operator licenses and reduced by \$9,101 to remove maintenance costs included in shared overhead.

- Transportation expense was reduced by \$12,269 to remove costs included in shared overhead.
- Insurance – Vehicle expense was reduced by \$5,262 to remove costs included in shared overhead.
- Insurance – General Liability expense was reduced by \$21,808 to remove costs included in shared overhead.
- Operations and Maintenance expense was increased by \$7,000 to reflect insurance premium for required performance bond.
- Regulatory Commission expense was increased \$13,334 to reflect amortization of unamortized rate case expense over two years.
- Bad Debt expense was increased by \$1,138 to reflect the same bad debt percentage of pro forma receipts.
- Miscellaneous expense was increased by \$955,039 to reflect the allocation of shared costs and corporate overhead.
- Depreciation expense was increased by \$90,070 to reflect assets placed into service before March 31, 2021 and shared assets.
- Amortization – Other expense was reduced by \$1,278 to reflect Contributions in Aid of Construction for assets placed into service before March 31, 2021.
- Gross Receipts Tax expense was increased by \$4,868 to reflect 2021 Commission tax applied to pro forma gross receipts.
- Property Tax expense was increased by \$68,865 to reflect plant in service as of March 31, 2021.

- Federal Income Tax expense and Deferred Federal Income Tax expense were reduced by \$14,296 and \$2,181, respectively, to reflect taxes based on pro forma operating income.
- State Income Tax expense and Deferred State Income Tax expense were reduced by \$5,996 and \$2,181, respectively, to reflect taxes based on pro forma operating income.
- Interest and Dividend Income was reduced by \$3,706 to remove nonrecurring interest income.
- Allowance for Funds Used During Construction (“AFUDC”) was reduced by \$18,650 to remove AFUDC.
- Interest expense was reduced by \$183,341 to reflect the interest synchronization calculation using the imputed interest rate.
- Interest expense was reduced by \$30,760 to remove amortization of a debt discount.

**Q. WHAT COSTS ARE INCLUDED IN RATE CASE EXPENSES?**

- A. Prudent rate case costs include attorney's fees, expert witness fees, and out-of-pocket expenses incurred in a rate case.

**Q. HOW DOES THE COMPANY PROPOSE TO SEEK RECOVERY OF PRUDENT RATE CASE COSTS INCURRED SUBSEQUENT TO THE ORS’S AUDIT CUT-OFF DATE?**

- A. PWR will continue to update its rate case expenses after the ORS's audit cut-off deadline and will provide the ORS with periodic updates. PWR will also file

supplemental rate case expenses with the Commission prior to the final hearing in this matter and will seek to further update its expenses after its conclusion. PWR will ask the Commission to allow recovery of the supplemented expenses.

**Q. WHAT RATEMAKING METHODOLOGY SHOULD THE COMMISSION USE TO SET RATES IN THIS APPLICATION?**

A. The Company proposed that its rates continue to be determined using a rate-of-return methodology. Please refer to the Direct Testimony of the Company's cost-of-capital witness, Paul R. Moul, for details of the Company's requested rate of return.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.